

Message Text

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ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 EA-07 NEA-10 ISO-00 EB-07 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 /126 W
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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 379

INFO AMEMBASSY BEIRUT

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

USMISSION EC PARIS

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E.O. 11652: N/A

TAGS: EFIN, ENRG, CERP, VE

SUBJECT: GOVT FINANCES: INCREASED OIL REVENUE AND PUBLIC CREDIT

REF CERP 0200, CERP 0201

1. SUMMARY: THE INCREASE IN OIL PRICES PROBABLY WILL

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INCREASE VENEZUELA'S REVENUE FOR THE REMAINDER OF 1975

AND THE YEAR 1976 BUT AT THIS TIME THERE ARE TOO MANY VARIABLES TO PREDICT HOW MUCH. THE GOVT SEEKS APPROVAL TO ISSUE BONDS TO FINANCE ITS LONG-TERM INFRA-STRUCTURE PROJECTS, CAUSING CONCERN THAT IT MAY SATURATE THE CAPITAL MARKET. END SUMMARY.

2. ACCORDING TO LOCAL NEWSPAPER REPORTS ON SEP 30, PRELIMINARY CALCULATIONS OF THE MINISTRIES OF FINANCE AND MINES AND HYDROCARBONS INDICATE THAT THE TEN PERCENT INCREASE IN THE PRICE OF OIL DECIDED BY OPEC WILL RESULT IN AN INCREASE IN VENEZUELA'S REVENUE OF BS575 MILLION FOR THE LAST QUARTER OF 1975, WHICH WOULD BRING THE REVISED ESTIMATE OF TOTAL REVENUE FOR THE YEAR TO BS40.106 BILLION. THE INCREASE IN OIL REVENUE FOR NINE MONTHS, OCT 1, 1975 THROUGH JUNE 30, 1976, IS ESTIMATED TO BE BS1.5 BILLION. THIS ESTIMATE IS PREDICATED ON AN AVERAGE PRODUCTION OF 2.2 MILLION BARRELS PER DAY.

3. SUBSEQUENTLY, THE ACTING MINISTER OF MINES AND HYDRO-CARBONS, HERNAN ANZOLA, DENIED TO REPORTERS THAT THE GOVT HAD CONCLUDED ITS CALCULATIONS CONCERNING THE AMOUNT OF THE INCREASED OIL REVENUE THAT WOULD RESULT FROM THE PRICE INCREASE, BUT STATED HIS BELIEF THAT THE ADDITIONAL REVENUE WOULD NOT REACH US\$1 BILLION FOR 1976. THE BUDGET BILL FOR 1976 WHICH PROJECTED OIL REVENUE AT BS24.613 BILLION MADE NO ALLOWANCE FOR AN INCREASE IN THE PRICE OF OIL. WHILE GOVT OFFICIALS NOTE THAT THIS INCREASE IN THE PRICE OF OIL PROVIDES THE COUNTRY WITH A FISCAL SAFETY MARGIN, OPPOSITION MEMBERS PREDICT THAT THE LEVEL OF PRODUCTION WILL FALL BELOW 2.2 MILLION BARRELS PER DAY IN 1976 THUS REDUCING THE LEVEL OF OIL REVENUE NOW PROJECTED AS A RESULT OF THE PRICE INCREASE.

4. ON OCT 1 THE PRESS PUBLISHED A LETTER FROM PRESIDENT CARLOS ANDRES PEREZ TO OPEC CHIEFS OF STATE PROPOSING THE ESTABLISHMENT OF A US\$2BILLION FUND FOR THE PURPOSE OF PROVIDING NON-REIMBURSABLE BALANCE OF PAYMENTS SUPPORT TO NON-PETROLEUM PRODUCERS OF THE THIRD WORLD. THE FUND WOULD BE FINANCED BY THE OPEC COUNTRIES WHICH PRODUCE MORE THAN 500,000 BARRELS PER DAY. (IF SUCH A FUND IS LIMITED OFFICIAL USE

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ADOPTED BY OPEC, THE NET REVENUE RETURN TO THE MAJOR PETROLEUM PRODUCERS WOULD BE REDUCED.)

5. IN ORDER TO CARRY OUT MAJOR PUBLIC WORKS PROJECTS THE CABINET HAS APPROVED A POLICY OF FINANCING THEM THROUGH PUBLIC CREDITS RATHER THAN BUDGETARY ALLOCATIONS. IN THIS CONNECTION THE CABINET RECENTLY APPROVED SIX PROPOSED PUBLIC CREDIT LAWS THAT WOULD ALLOW THE MINISTRY

OF PUBLIC WORKS (MOP) TO GUARANTEE THE FINANCING OF MORE THAN BS13 BILLION WORTH OF CONSTRUCTION OVER THE NEXT FIVE YEARS. THE LAWS WOULD PROVIDE FOR: A. BS2BILLION FOR THE CARACAS METRO; B. BS2BILLION FOR CONSTRUCTION OF 15,000KM. OF RURAL ROADS; C. BS3.5BILLION FOR HIGHWAYS AND EXPANSION OF MAIQUETIA AIRPORT; D. BS1.8 BILLION FOR HYDRAULIC PROJECTS E. BS3.2 BILLION FOR HOUSING PROJECTS; AND F. BS1.1 BILLION FOR EXPANSION AND CONSTRUCTION OF PORTS.

6. THE CENTRAL BANK HAS EXPRESSED CONCERN THAT THE GOVT IS FLOODING THE MARKET WITH EXCESSIVE SALES OF INTERNAL DEBT BONDS IN ORDER TO FINANCE PROJECTS WHICH SHOULD BE COVERED BY CURRENT EXPENDITURES. ACCORDING TO THE BANK'S ESTIMATES THE PUBLIC SECTOR WILL HAVE ISSUED BONDS TALLING BS4.2 BILLION DURING THE LAST HALF OF 1975 AND THE WHOLE OF 1976.

7. COMMENT: UNTIL THE DUST SETTLES, THERE ARE TOO MANY UNDETERMINED VARIABLES TO PREDICT THE EFFECT OF THE OPEC PRICE INCREASE ON VENEZUELA'S REVENUE, SUCH AS: A. THE GOV HAS NOT DECIDED HOW MUCH OF THE AGREED INCREASE IT WILL APPLY TO ITS EXPORTS OF CRUDE AND LARGE RANGE OF REFINED PRODUCTS; B. THE GOV IS UNCERTAIN OF PRODUCTION COSTS AFTER NATIONALIZATION; C. THE EFFECTS OF THE PRICE INCREASE ON DEMAND FOR VENEZEULAN PRODUCTION ARE UNKNOWN; D. THE ESTABLISHMENT OF THE FUND PROPOSED BY PRESIDENT PEREZ COULD RESULT IN A NET REDUCTION OF REVENUE.

8. THE GOVT HAS COME UNDER INCREASINGLY SEVERE CRITICISM BY THE OPPOSITION FOR ITS MANAGEMENT OF THE COUNTRY'S OIL REVENUE OVER THE LAST TWO YEARS. THE LIMITED OFFICIAL USE

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OPPOSITION NOTES IN PARTICULAR THAT CURRENT EXPENDITURES HAVE RISEN TO THE LEVEL OF REVENUE DESPITE THE ALMOST THREE-FOLD INCREASE SINCE 1973 AND HAS HAD TO RESORT TO PUBLIC CREDIT TO FINANCE LONG-TERM INFRASTRUCTURE PROJECTS. BOTH THE CENTRAL BANK AND THE PRIVATE FINANCIAL SECTOR ARE CONCERNED ABOUT THE POSSIBILITY OF SATURATION OF THE CAPITAL MARKET BY PUBLIC BOND ISSUES. END COMMENT. SHLAUDEMAM

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